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THE SENATE ARMED
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STATEMENT OF
THE SECRETARY OF DEFENSE
CASPAR W. WEINBERGER

BEFORE THE
SENATE ARMED SERVICES COMMITTEE

IN CONNECTION WITH
THE FISCAL YEAR 1986 BUDGET FOR
THE DEPARTMENT OF DEFENSE

FEBRUARY 4 , 1985

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Statement of the Secretary of Defense,
Caspar W. Weinberger

Mr. Chairman, members of the committee. It is a pleasure for me to be here today to address the defense portion of the President's FY 1986 Budget. The Congress and the American public can and should take great satisfaction in the progress that this nation's military has made over the last four years in redressing the deficiencies in national defense capability that the Administration inherited in 1981.

We have significantly strengthened readiness and sustainability, improved our military personnel situation, and initiated a too-long deferred force modernization program. Today we have a stronger, prouder, and better equipped military force than we have had in over a decade. Military morale is high today, the U.S. servicemen and women are held in high esteem by the public, and America's global prestige as the leader and credible defender of freedom has been restored. This did not come easily or without the application of fiscal resources.

President Reagan and the Congress have had to commit to a long-range program to restore and strengthen U.S. national security. The success of that program hangs in the balance as we address the FY 1986 defense request. As pressures mount to reduce the defense budget in an effort to reduce the federal deficit --

FY 1986 DEPARTMENT OF DEFENSE BUDGET
FINANCIAL SUMMARY
BUDGET AUTHORITY & OUTLAYS
(CURRENT \$ BILLIONS)

	<u>FY 1984</u>	<u>FY 1985</u>	<u>FY 1986</u>
BUDGET AUTHORITY	258.2	284.7	313.7
% Real Growth	4.4%	5.9%	5.9%
OUTLAYS	220.8	246.3	277.5

Chart 1

pressures which I fully recognize and appreciate -- it will require a continued resolve by all of us to stay the course. The FY 1986 defense budget request proposes that we not nullify the progress achieved over the last four years by sliding back into the pattern of the 1970's of inefficient and unstable programs, but that we continue to build upon this progress.

The President has shown his resolve to complete the task of rearming America during the difficult decisionmaking process leading to the budget now before you. The total federal budget reflects the Administration's intention to reduce federal expenditures, but not at the expense of our national security needs. It would have been easy for the President to have sought immediate deficit savings through reductions to defense programs, but the result would be an unavoidable weakening of our defense posture now and into the future. The President viewed that course as unacceptable.

Budget Overview

(Chart 1: DoD Financial Summary)

The Congress and the Nation should be aware that the Department of Defense has contributed to efforts to reduce the federal deficit. We recognize that the nation's security is inextricably linked to a healthy economy and

"WHAT HAS ALREADY HAPPENED TO 1986?"
DOD TOPLINE CHRONOLOGY - BUDGET AUTHORITY
 (Current \$ in Billions)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>TOTAL 1982-1986</u>
March Amendment 1981	221.8	254.5	288.9	326.2	367.2	1,458.6
INCREMENTAL ADJUSTMENTS TO PLAN						
Sept 1981 through Sept 1983	-8.0	-15.0	-30.7	-4.6	-10.8	-69.1
FY 1985 Budget Jan 1984	-	-	-	-16.6	-6.8	-23.4
FY 1985 Rose Garden/ Congressional Enactment	-	-	-	-20.5	-24.8	-45.3
FY 1986 Budget Jan 1985	-	-	-	+ 0.2	-11.1	-10.9
TOTAL ADJUSTMENTS since MARCH, 1981	-8.0	-15.0	-30.7	-41.5	-53.5	-148.7
Current Approved TOPLINE	213.8	239.5	258.2	284.7	313.7	1,309.9

Chart 2

"WHAT HAS ALREADY HAPPENED TO 1986?"

DoD TOPLINE CHRONOLOGY - OUTLAYS (Current \$ in Billions)

	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>TOTAL 1982-1986</u>
March Amendment 1981	184.8	221.1	249.8	297.3	336.0	1,289.0
INCREMENTAL ADJUSTMENTS TO PLAN						
Sept 1981 through Sept 1983	-1.9	-16.1	-29.0	-20.9	-21.7	-89.6
FY 1985 Budget Jan 1984	-	-	-	-12.0	-12.5	-24.5
FY 1985 Rose Garden/ Congressional Enactment	-	-	-	-5.8	-15.6	-21.4
FY 1986 Budget Jan 1985	-	-	-	-12.3	-8.7	-21.0
TOTAL ADJUSTMENTS since MARCH, 1981	-1.9	-16.1	-29.0	-51.0	-58.5	-156.5
Current Approved TOPLINE	182.9	205.0	220.8	246.3	277.5	1,132.5

Chart 3

DoD CONTRIBUTION TO DEFICIT REDUCTION EFFORTS

(\$ in Billions)

	<u>FY 1985</u>	<u>FY 1986</u>
TOTAL FEDERAL DEFICIT		
January 1984 Estimate	180.4	177.1
January 1985 Estimate	222.2	180.0
Increase in Deficit	+41.8	+2.9
RESULTING FROM:		
Lower Receipts	+8.2	+21.2
Outlay Change	+33.6	-18.4
DOD OUTLAYS		
January 1984 Estimate	264.4	301.8
Actual	246.3	277.5
Decrease in DoD Outlays	-18.1	-24.3

Chart 4

financial integrity. The defense budget request before you reflects a requirement of \$313.7 billion in budget authority and \$277.5 billion in outlays. This represents a real growth in budget authority of 5.9 percent over FY 1985.

(Chart 2: Topline Chronology - Budget Authority)

The FY 1986 request reflects a substantial decrease from the initial estimates developed by this Administration in 1981. Since the Administration's initial defense program was forwarded to the Congress in the March 1981 Budget Amendment, defense budget authority requirements for FY 1986 have decreased by \$53.5 billion,

(Chart 3: Topline Chronology - Outlays)

while outlay projections have declined \$58.5 billion.

Defense Spending

(Chart 4: DoD Contribution to Deficit Reduction Efforts)

Since I appeared before you last year in support of the FY 1985 defense budget, the projection for federal deficits for the two years FY 1985 and FY 1986 has worsened. This unfavorable trend results from estimated decreases in federal receipts for both years. Federal outlays for FY 1985 are \$33.6 billion above January 1984 projections, but this is accounted for entirely in the non-defense areas of the government, since defense spending for FY 1985 is now \$18.1 billion

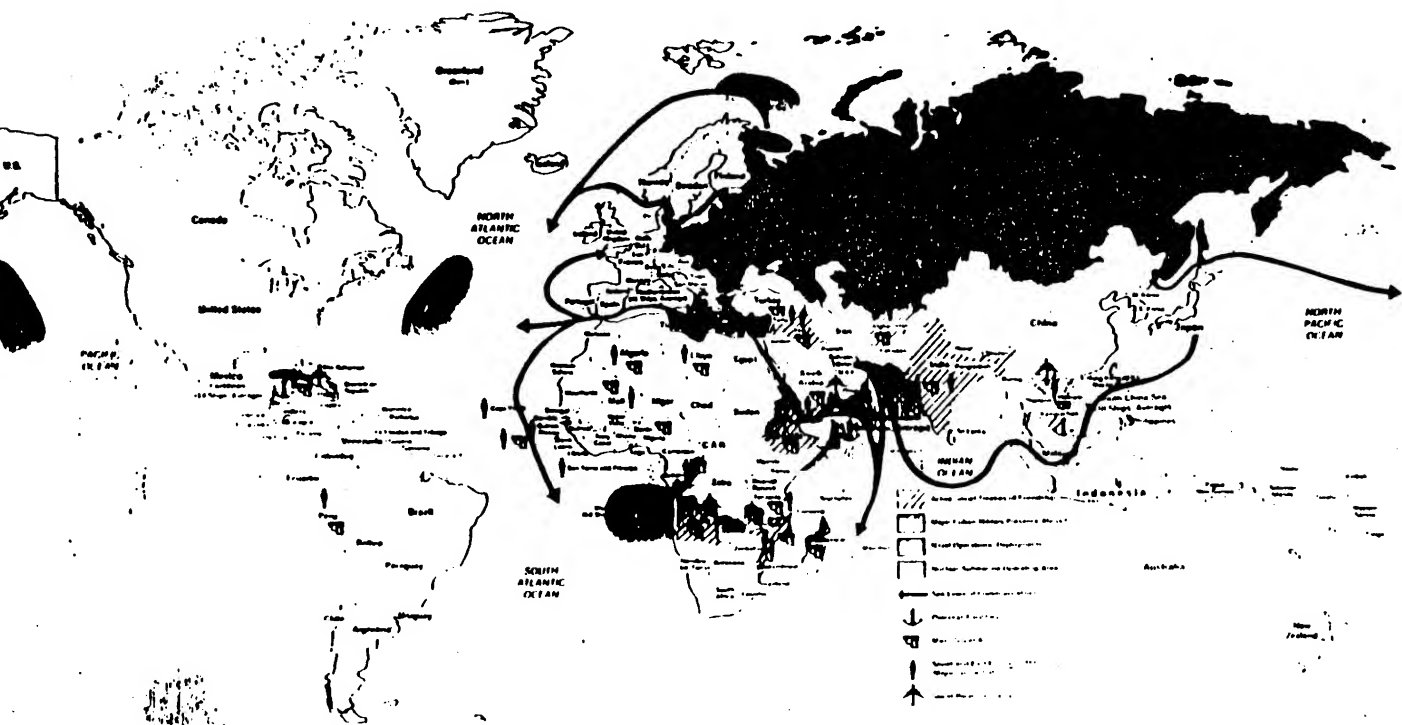


Chart 5

below the projection made nearly a year ago. Total federal outlays for FY 1986 are down by \$18.4 billion, explained entirely by a decline in defense outlays of \$24.3 billion.

National Security Requirements

(Chart 5: Soviet Global Power Projections)

As I have noted, the defense budget has made a continual contribution to reductions in government spending. But the defense budget cannot be regarded as a tool of fiscal policy. The defense budget is different from other federal spending. The defense program before you today is developed in response to specific national security requirements. Our requirements are determined by the external threats we see. The defense budget is not a level-of-effort spending program, as is most of the nondefense budget, but is structured to buy a specific capability within a specific timeframe to support specific national security policy goals. We have not witnessed a reduction in the threats facing the United States, her allies, and freedom-seeking people of the world. We have not lessened our global commitments. Nothing occurring in the realm of international affairs would indicate that we could afford to abandon our military program in midstream. Military forces that are strong, ready, and modern are credible and tangible

instruments of our national power. As we pursue negotiations for arms reduction, success depends upon our ability to bargain from strength. We cannot jeopardize these efforts by lessening our national commitment to military requirements.

The Threat

U.S. national security policy and the military capability to support it are developed in response to the realities of today's threat environment. One of the most certain realities is that the Soviet union has been engaged in a continuous across-the-board military buildup. Its strategic offensive forces have grown dramatically during the last decade. It has developed and deployed a global offensive capability which far exceeds anything it could require for its own defense. Soviet leaders engaged in this military buildup even during the 1970's when this nation was consciously constraining its defense spending. The development of many improved Soviet weapons and support systems has been made possible by access to Western technology, whose acquisition is a top priority set at the highest levels of the Soviet government. We cannot afford, as a nation, to ignore what the Soviets are and what they have done: the totalitarian nature of their government; the dedication of vast resources to military purposes without concern for their overall economy or the quality

of life for their people; and the secrecy inherent in their closed society. Clearly, we must acknowledge the significant difference in our societies and systems of government and try to channel the long-term competition between us toward more stable and peaceful areas.

It is not just the Soviet Union that threatens world stability and U.S. interests. In 1984, the military forces of 20 countries were involved in conflicts in 11 areas of the world. Most of these areas involve interests or contain resources essential to many nations, including our own. One does not have to search far to discover instances of military incursions, or attempted incursions, into countries of the Third World. The Soviet Union and its ally, Cuba, have taken advantage of the social, political, and economic problems of the countries of Latin America to support insurgency, terrorism, and efforts at destabilization. The same is true in many regions of Africa. The Soviets have also supported nations, such as Vietnam, Libya, and Syria, that are engaged in aggression against neighboring states. The Middle East exists in constant turmoil. Lebanon continues its struggle to find acceptable solutions to its complex problems. While America and her allies enjoy the benefits of peace, we cannot ignore the implications

of conflict in other areas of the globe. The world society has become too complex for that.

Resurgence of Alliances

The resurgence of a sense of unity and greater cooperation between the United States and her allies bears witness to the fact that this nation is resuming its rightful role as a world leader and that our efforts are being reciprocated by our friends. At the NATO meeting in December, our allies increased their financial commitment to the modernization and expansion of conventional defenses. Likewise, Japanese defense budgets are slowly increasing as Japan prepares to implement its policy of defending its territory, air space, and sea lanes out to 1,000 miles. Like the armed forces of the United States, the military forces of our friends are better equipped, trained, and prepared than ever. By strengthening conventional forces, the United States and her allies have sought to restore a balanced deterrent and to reduce the reliance on nuclear arms.

The Soviet Union has not been oblivious to the continuing improvement in the military posture of the Western nations as well as the renewed commitment to take the necessary steps to defend our interests worldwide. We seek peace through our commitment to strength, and we are also prepared for meaningful arms

READINESS FACTORS - PERSONNEL

Recruits with High School Diplomas (percent)

<u>Service</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Army	54	80	86	88	91
Navy	75	76	79	91	93
Marine Corps	78	80	85	92	93
Air Force	<u>83</u>	<u>88</u>	<u>94</u>	<u>98</u>	<u>99</u>
Total	68	81	86	91	93

First Term Reenlistments (percentage of eligible)

Army	50.6	55.0	58.6	45.3	43.8
Navy	36.7	41.7	50.3	55.7	58.0
Marine Corps	23.2	26.6	34.0	33.3	39.5
Air Force	<u>35.8</u>	<u>42.9</u>	<u>56.9</u>	<u>65.8</u>	<u>61.9</u>
Total	39.1	43.0	52.9	51.6	51.2

negotiations. We seek to negotiate, but from strength. We must provide the Soviets with the incentive to agree to arms reductions and we have sought to do so - I think with great success - through diplomatic efforts as well as the strengthening of our military forces.

Improvements in Defense

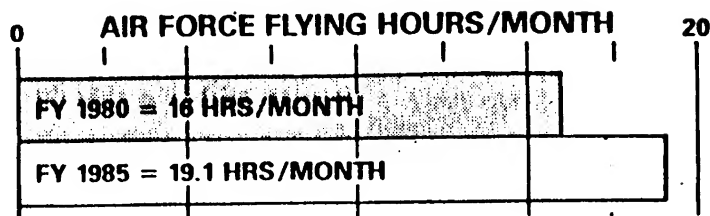
Remarkable progress has been made in fulfilling the President's mandate to strengthen America's defenses. I would like to take a moment to highlight the progress made to date and to present the challenges that remain.

(Chart 6: Readiness Factors - Personnel)

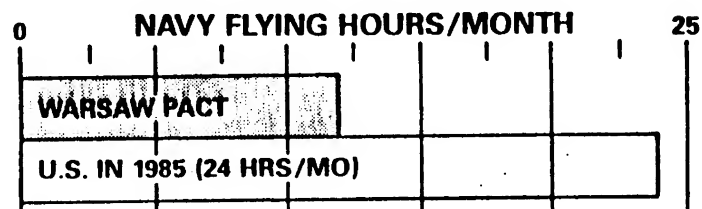
Readiness and sustainability continue to improve. Perhaps our most dramatic and rewarding success is in the improved quality and increased commitment of our personnel. In FY 1984, over 93 percent of our new recruits had high school diplomas, the highest level in our history. The overall reenlistment rate was 68 percent in FY 1984, with first-term reenlistments up 31 percent since FY 1980. This marked increase in the education and experience level has resulted in improved leadership, discipline, and maintenance within our forces. Our military forces today are better prepared for the challenges that may confront our national security than at any time in our history. Once again American men and women are wearing their military uniform and serving with pride.

TRAINING IMPROVEMENTS

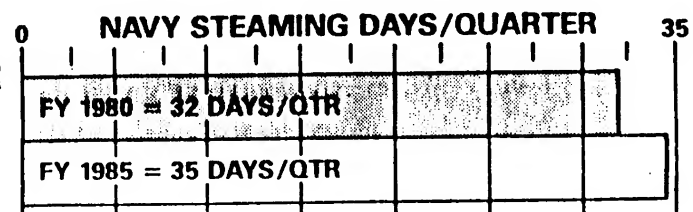
**AIR FORCE
TACTICAL AIRCREWS:
19.1 FLYING HOURS/MONTH**



**NAVY TACTICAL AIRCREWS:
24 FLYING HOURS/MONTH
(NEARLY DOUBLE WARSAW PACT COUNTERPARTS)**



**NAVY SHIPS:
35 STEAMING DAYS/QUARTER**



**ARMY BATTALIONS ROTATING
THROUGH NATIONAL
TRAINING CENTER:
24 BATTALIONS/YEAR**

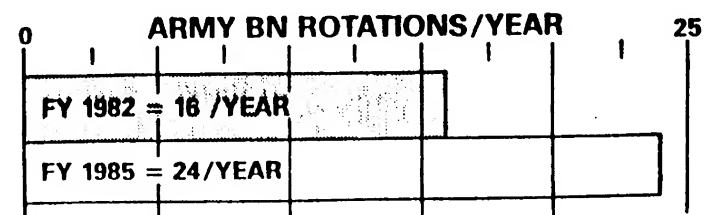


Chart 7

Readiness and Sustainability

(Chart 7: Training Improvements)

Contributing to this improved readiness is the emphasis placed upon increased and more realistic mission training opportunities for military personnel. Air Force and Navy air crews are flying more hours per month; Navy ships are steaming more days; the Army has increased its rotations through the National Training Center; and Marine unit training days and deployments continue on an upward trend. As a result, we can be confident that our people are capable of making maximum use of the increasingly complex weapons and equipment at their disposal. This could prove decisive in situations where our enemies have a numerical advantage. Navy fighter pilots, for instance, averaged 24 flying hours a month in FY 1984, more than double that of their counterparts in the Warsaw Pact.

Increased availability of spares and repair parts and supplies, along with improved maintenance, have resulted in a significant increase in the operational availability of our equipment and weapons. Today, more ships are rated ready and more aircraft are deemed mission-capable than was the case in January 1981. Gone are the days when ships could not put to sea for lack of personnel and equipment.

During the 1980's, we made major improvements in the working and living conditions of our service members. For many years, military construction was seriously underfunded due to lack of support by prior Administrations and the Congress. As a result, there has been a growing backlog of facility needs estimated to be in the range of \$50 billion. This can be generally characterized as the amount of physical plant that is obsolete, dysfunctional, unsafe, energy-wasteful, or that falls seriously short of meeting habitability standards. As a result, severe penalties are paid through inefficiency of operations, higher operating costs, and low morale. The FY 1986 request represents a positive initiative to reverse the past negative trend. This should have a direct and positive effect on readiness.

The FY 1986 construction program supports major weapon systems initiatives such as the B-1 bomber, MX/PEACEKEEPER, TRIDENT, and the Ground Launched Cruise Missile. It also provides initial funding for the stationing of the Army's two new Light Infantry Divisions, funds construction for the guard and reserve units, and supports the NATO infrastructure program.

INCREASES IN WAR RESERVE MUNITIONS INVENTORIES*

Between FY 1983 and FY 1986, war reserve munitions stocks will increase by:

ARMY	14 %
NAVY	58%
AIR FORCE	62%
MARINE CORPS	24%

***Ammunition, ordnance, missiles**

The FY 1986 program includes \$33 million for a new appropriation account entitled, "Defense Facilities Replacement." This account will finance the construction of replacement facilities at alternative locations for functions currently sited on parcels of real estate having high commercial value. Once the functions are relocated, the vacated property will be sold. Each of these is to be a profit-making transaction. Part of these profits will be applied to the reduction of the national debt.

(Chart 8: Increases in War Munitions Inventories)

Of course, it is not enough to have our people and equipment ready, we must be able to sustain them should they be called into combat. With the support of the Congress, we are working to maintain steady growth in our war reserve stocks. The materiel procured during the past three years will, when delivered, increase our munitions stocks by 14 percent for the Army, 58 percent for the Navy, 62 percent for the Air Force, and 24 percent for the Marine Corps. Through the Industrial Preparedness Planning Program, we are continuing our efforts to improve the surge and mobilization responsiveness of our industrial base.

CHANGES IN CONVENTIONAL FORCE STRUCTURE

Continued expansion:

600 ship Navy by FY 1989

- 479 ships end of FY 1980
- 542 ships end of FY 1985

Two new Light Divisions being formed by the Army:

- 10,000 man light infantry divisions
- based in Alaska and New York
- no increase in end strength

Land and tactical forces - increases in end strength since FY 1981

- active force strength up approximately 102,400
- reserve force end strength up about 215,000

Investment in Airlift, Sealift, and Prepositioned Materiel capacity:

Provides ability to respond promptly to crisis

From FY 1981 to the end of the decade:

- airlift capacity up by 80 %
- sealift capacity up by 110 %
- prepositioned materiel up by 150%

Force Structure Improvements

(Chart 9: Force Structure Improvements)

The FY 1986 budget does not seek a major new expansion of our active force structure. Rather, we have sought to maintain and enhance the qualitative edge U.S. forces have traditionally possessed. Ongoing force structure improvement will continue, including the expansion of the Navy to 600 ships, creation of two new light divisions within the Army - without increasing its end strength - and modest increases in tactical aircraft. The Air Force will procure 48 F-15 aircraft in FY 1986, an increase of 6 over FY 1985, and 180 F-16 aircraft, an increase of 30 over FY 1985. The Navy plans to buy 12 EA-6B aircraft, an increase of 6 over FY 1985 procurement, and 46 AV-8B aircraft, an increase of 14 over FY 1985. We have stepped up the pace of our ground force modernization programs. The FY 1986 budget requests 840 M1 Abrams tanks, 716 Bradley Fighting Vehicles, and 117 Sgt. York (DIVAD) Guns. Investment in strategic mobility capabilities has been enhanced. Additions to airlift, sealift, and prepositioning programs through the FY 1986 budget will meet 70 percent of U.S. mobility goals, up from only 37 percent in FY 1981.

While we have limited the growth of the structure manned by the active components, increased reliance is being placed on the reserve components. The FY 1986 budget represents a 7 percent increase over the FY 1984 Selected Reserve end strength. In addition to increased manning, reserve forces are being brought up-to-date with modern equipment. In FY 1985, Army and Marine Corps Reserve units are scheduled to receive more than 10,000 new items, costing about \$1.4 billion. Included in this list are 180 M1 tanks, 64 Bradley Fighting Vehicles, 41 M-198 howitzers, over 3,000 modern support vehicles, and 2 KC-130T refueling aircraft. The F-14 and F/A-18 are being introduced into the Naval Reserve tactical airwings. By the end of FY 1986, 15 modern FF-1052 and FFG-7 frigates will have been transferred to the Naval Reserve Fleet. Air Force reserve component fighter forces have received the F-16 aircraft and F-4C/Ds are being replaced with more capable F-4E aircraft. In FY 1986, they will receive the F-15. The C-141 and C-5 strategic airlift and the C-130 tactical airlift aircraft are expanding the Air Reserve Forces's inventory. Additional emphasis is being placed on more realistic and intensive training of Guard and Reserve units. Improved manning, equipping, and training of the reserve components will permit them to take on additional missions, while maintaining the combat capability of the Total Force.

STRATEGIC TRIAD MODERNIZATION

Bomber force:

Cruise missiles on B-52s:

Deployed on 90 B-52G's

FY 1986 begins modification of B-52H's

FY 1986 funds production of last 48 B-1B bombers

Development of Advance Technology Bomber for deployment in early 1990's

Ballistic Missile Submarines:

TRIDENT submarines have met or exceeded all design criteria:

12 TRIDENT submarines authorized through FY 1985

13 th TRIDENT submarine funded in FY 1986

TRIDENT II missile development continues with initial procurement planned for FY 1987

Intercontinental Ballistic Missiles:

MX/PEACEKEEPER Missile:

Performing at or above expectations in all areas:

Approval for 21 missiles through FY 1984; 21 missiles authorized in FY 1985; 48 missiles funded in FY 1986 request.

R&D on small missile concept

Strategic Triad

(Chart 10: Strategic Triad Modernization)

The FY 1986 budget continues our efforts to modernize all three legs of the strategic triad. This modernization is crucial to our efforts for strengthening our nuclear deterrence and providing incentives for the Soviets to cooperate in negotiations for genuine arms reductions. Bomber forces will continue to be modernized with the installation of cruise missiles on B-52s, continued production of the B-1B bomber (which will come in on schedule and within or under budgeted costs), and development of the Advanced Technology Bomber. The three TRIDENT submarines already at sea continue to meet or exceed all performance criteria and dramatically enhance the sea-leg of our triad. Development of the TRIDENT II (D-5) missile is continuing and will provide our ballistic missile submarines with the ability to place hardened Soviet assets at risk.

The MX/PEACEKEEPER missile remains the essential element of the President's strategic modernization program. Progress continues on the procurement of this deterrence capability consistent with the recommendations of the Scowcroft Commission. The MX missile is performing at or above expectations

in all areas and is within schedule and budgeted cost. It is important that the Congress vote for the release of FY 1985 MX funds, approve the FY 1986 funding request, and allow us to complete this critically needed program. We have no other near-term response to the Soviet strategic offensive challenge and, clearly, the success of this program has played a vital role in convincing the Soviets to return to the arms reduction negotiating table. PEACEKEEPER demonstrates to the Soviets that we are serious about redressing the imbalance in strategic forces and that they cannot expect to maintain an advantage in this area. Ongoing research and development of a small missile concept, again consistent with Scowcroft Commission recommendations, is additional evidence that we intend to guard U.S. deterrence capability.

INF Deployment

The NATO agreement, achieved just last December, to nearly double its infrastructure funding should send strong signals to the Soviets and their allies that the Alliance is most serious about strengthening its conventional forces. This agreement, in conjunction with the continued support of NATO countries in the deployment of Pershing II and cruise missiles on their soil, has reaffirmed the unity of the NATO community and its determination to take the necessary steps to

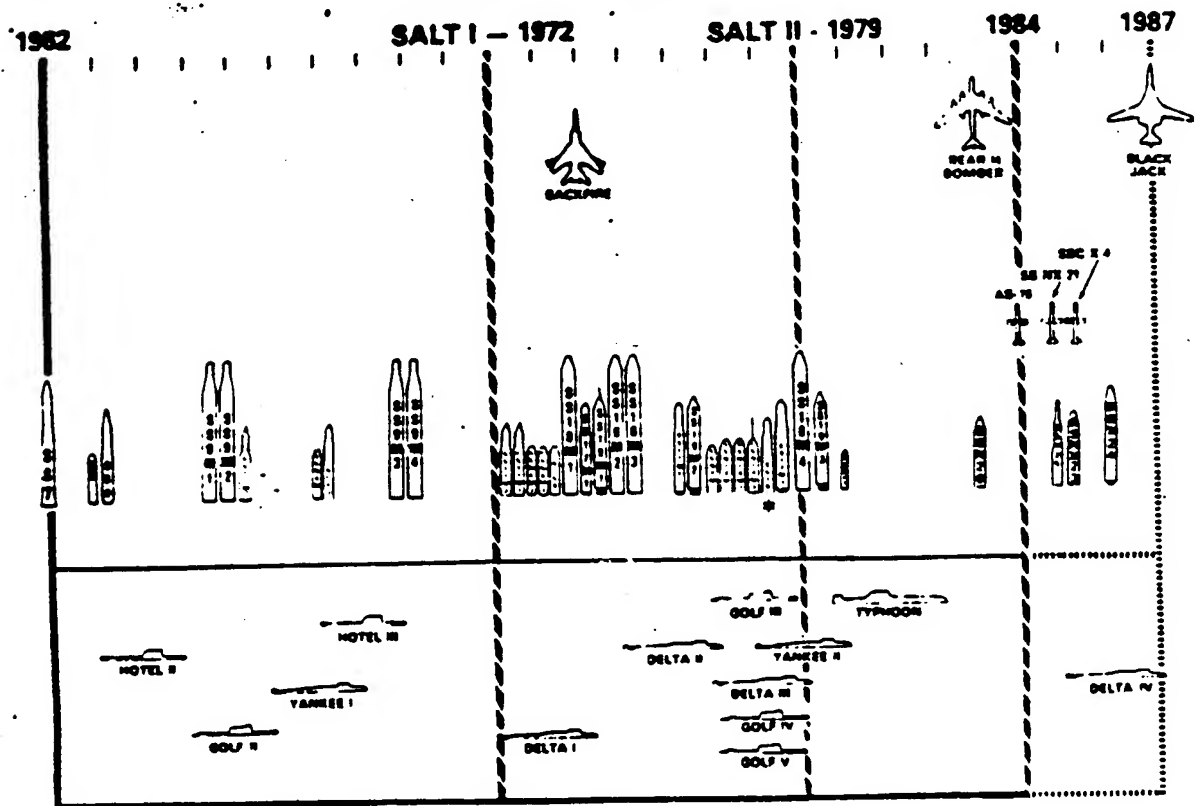
maintain a credible and effective deterrent force in the face of the growing Soviet threat. The acceleration of NATO infrastructure funding for air base facilities and aircraft shelters for our reinforcement aircraft will greatly improve our ability to exploit the qualitative superiority of our tactical air forces during a crisis.

SDI

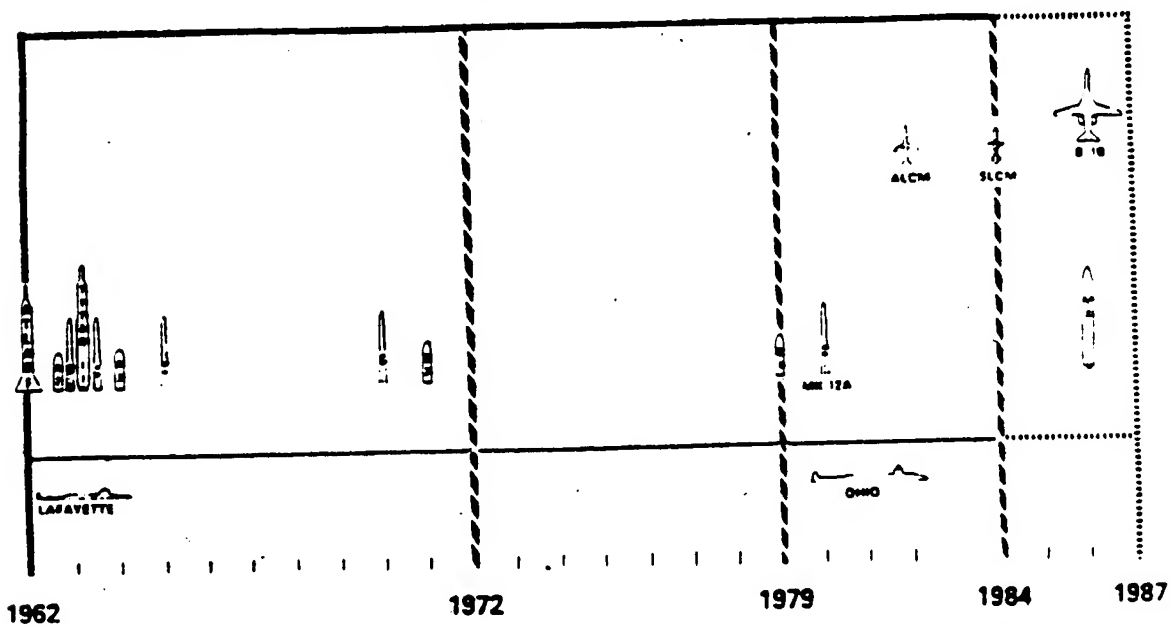
Our efforts to reduce the reliance on nuclear armaments in Europe through this expansion of conventional forces is just one expression of the President's desire to reduce the threat of all nuclear weapons. The most effective means to lessen this threat is through the continuation of the Strategic Defense Initiative (SDI). We are exploring technologies which promise to provide options for effectively defending against ballistic missile attacks -- whether directed at the United States or our allies. Such technologies could deny the Soviets the objectives of their attack, thereby discouraging them from even considering such an attack. As such, SDI would serve as a most effective enhancement to our deterrent capability.

There is no denying that our nation is now totally vulnerable to Soviet nuclear missiles. Our defense has been the threat of retaliation with our offensive weapons. The SDI is based on a different philosophy of

INTRODUCTION OF STRATEGIC SYSTEMS BY YEAR SOVIET UNION



UNITED STATES



*AVAILABLE INFORMATION ON THE SS-16 IS INCONCLUSIVE, BUT INDICATES PROBABLE DEPLOYMENT

detering war by being able to defend against attack on the United States or its allies with sufficient effectiveness to deny the Soviets their military objectives. As such, these defensive systems would contribute to deterrence and, in the unlikely event that deterrence should fail, would save lives by significantly reducing the scope of destruction that would result from a Soviet attack.

Arms Reduction

(Chart 11: Introduction of Strategic Systems by Year)

The most important means to alleviate the threat of nuclear weapons is arms reduction, hopefully leading to the complete elimination of such weapons. The United States has a history of restraint in its nuclear forces. Today, our stockpile (including warheads for nonstrategic systems) has 25 percent fewer nuclear warheads and 75 percent less nuclear explosive power (measured in megatonnage) than we had in the 1960's. We are currently in the process of implementing reductions in NATO's nuclear arsenal. Unfortunately, the Soviets have not responded to our efforts to achieve a stable balance at lower force levels.

The United States is committed to the pursuit of far-reaching nuclear arms reductions that are equitable and verifiable. Agreements like SALT I and II that simply

limit or slow the rate of, and thus legitimize, future growth are not enough. At best, they divert us from the important task of achieving actual reductions. Further, the record of Soviet noncompliance with earlier arms control agreements demonstrates how vital it is that future accords be precisely drafted and include effective verification provisions.

In the Strategic Arms Reduction Talks (START) and the intermediate-range nuclear force (INF) negotiations, the United States proposed deep cuts in nuclear arms, focusing on the systems of greatest concern to each side. Regrettably, the Soviet Union walked out of the INF talks in November 1983, and shortly thereafter refused to agree to a date for the next round of START.

Last fall, the United States and the Soviet Union agreed to begin negotiations on the whole range of questions concerning nuclear and outer space arms. Secretary of State Shultz and Soviet Foreign Minister Gromyko met in Geneva in January 1985 to discuss the agenda and objectives of those negotiations. This step marks a welcome new beginning. We have a long and difficult task ahead of us, but if we are patient and persistent, I have every hope that we can achieve the deep reductions of nuclear weapons and increased strategic stability that are in the best interests of the

ACQUISITION IMPROVEMENTS

Cost Growth for Major Weapon Systems:

end of CY 1980	14%
end of CY 1983	1%

Economic Production Rates:

In FY 1983, saved \$2.3 billion in unit cost savings for 18 programs

FY 1986 budget anticipates an additional \$100 million in savings

Multiyear Procurements:

From FY 1982 - FY 1985, Congress has approved 32 multiyear contracts, for a projected savings of \$4.5 billion

FY 1986 budget requests an additional 6 multiyear programs with anticipated savings of \$1.3 billion

Increased Use of Fixed Price Contracts:

In FY 1981, 75% of all procurement dollars were under fixed price contracts

FY 1984, 82% of all procurement dollars were under fixed price contracts

United States, the Soviet Union, our allies, and the entire world. In order to reach that end, we must retain the same determination to preserve the military balance that has now encouraged the USSR to return to the negotiating table. Our firm commitment to needed nuclear force modernization, to the continued development of the antisatellite (ASAT) capability, and to the Strategic Defense Initiative is vital to the success of the coming negotiations.

Management and Acquisition Improvement

(Chart 12: Acquisition Improvements)

Each year, since I became the Secretary of Defense, I have come before you to discuss the Acquisition Plan initiated within the Department. This plan incorporates such reforms as multiyear procurement and enhanced competition to bring costs under control. The results have been most encouraging. The Congressional Budget Office has confirmed that annual cost growth on selected major systems has been reduced from 14 percent in 1980 to only 1 percent by the end of 1983. And, in the first three quarterly reports required by the Congress on these programs in 1984, our projected costs have actually gone down. In addition, several major programs, once in trouble, are back on track. The last four TRIDENT-equipped submarines were delivered to

**DoD EFFORTS TO STOP WASTE, FRAUD
AND ABUSE IN FY 1984**

0	Audits of internal management of DoD operations and programs	-- Reports issued	18,532
		-- Potential savings	\$2.7 billion
0	Investigative cases	-- Cases closed	15,837
		-- Cases referred for prosecution or administrative action	5,546
		-- Convictions	548
		-- Fines, penalties, restitutions and recoveries collected from referrals to Justice Department;	18,031
		to Military Departments	11,151
0	DCAA audits	-- Reports issued	61,081
0	Army Corps of Engineers Contract Audit	-- Reports issued	416
		-- Net savings from reports closed	\$20.1 million
0	DoD inspection organizations	-- Reports	10,102
0	Follow-up actions completed	-- Audit recommendations	63,351
		-- Estimated savings	\$1.9 billion
0	Defense Hotline	-- Calls and letters received	7,820

the Navy four to seven weeks early and the ships now under construction are on or ahead of negotiated schedules. The engine problems of the M1 tank have been solved and the tank is winning praise even from its European competitors.

We have employed more economic production rates for programs such as the P-3 and F-16 aircraft and have saved \$2.7 billion in procurement costs as a result. Through greater use of competition and tough negotiating for its ships in 1984, the Navy saved enough to finance the entire cost of renovating the battleship USS Missouri. In addition, we have increased the use of cost-efficient fixed price contracts from 75 percent three years ago to 82 percent today. Further, multiyear procurement programs approved by the Congress thus far for FY 1981 through FY 1985 will save the Department of Defense over \$4.5 billion.

Waste, Fraud, and Abuse

(Chart 13: DoD Efforts to Stop Waste, Fraud, and Abuse)

We have made dramatic progress over the last four years in our ability to detect and curb waste, fraud, and abuse. The Inspector General's staff has completed over 68,000 internal audits. In FY 1984 alone, there were 18,532 audit reports issued by the Inspector General's Office on the internal management of DoD operations

and programs. But, the real measure of success lies in our ability to follow-up on these audits and, in this area, we have clearly made great strides. Over the past three years, 156,410 corrective actions have been completed on 50,939 DoD internal audit reports. During the same period, 2,350 corrective actions have been instituted on 1,077 General Accounting Office (GAO) reports.

DCAA

The Defense Contract Audit Agency (DCAA) is a separate agency within the Department of Defense that conducts world-wide audit activities. In FY 1984, the DCAA issued over 61,000 audit reports. The number of cases of contractor fraud reported from FY 1981 through FY 1984 has increased four fold. The percentage of audit exceptions sustained also increased from 55 percent in FY 1981 to 65 percent in FY 1984. There has been significant cost avoidance in procurement contracting due directly to these contract audit efforts.

Criminal Investigations

The Department continues efforts to detect and prosecute criminal fraud. We have established a new unit specializing in the investigation of white collar crime, the Defense Criminal Investigative Service. We have set up a special Defense/Justice Department procurement fraud unit. We reactivated the DoD

INTERNAL DOD AUDITS

You heard about the

\$400 claw hammer

\$110 Diode

\$9,000 Wrench

\$1,100 Plastic Cap

But did you know that

- DoD identified the overcharge, and obtained a refund from the contractor.
- DoD identified the overcharge, and obtained a refund from the contractor.
- DoD identified the overcharge, and refused to pay.
- DoD identified the overcharge; obtained a refund; and gave a \$1,100 award to the Air Force Sergeant who challenged the price.

Hotline, which has produced \$3.5 million in documented savings since May 1982.

Spare Parts Procurement

(Chart 14: Internal DoD Audits)

You have all heard of the problems we have experienced in our spare parts procurement. What is often not heard is that most of those pricing abuses were uncovered by DoD auditors before one defense dollar was spent. It was our own auditors that uncovered some serious problems with the way we procured our spare parts. Such was the case with the \$400 hammer, the \$110 diode, the \$9,000 wrench, and the \$1,100 plastic cap. As a result, we initiated efforts to overhaul our system of spare parts acquisition. The results have been encouraging. Industry leaders are providing excellent cooperation, even to the extent of initiating their own spare parts awareness programs. We have received over \$2.1 million in refunds from over 250 contractors, while 370 Defense Department personnel have received a total of \$200,000 in awards for identifying overpricing. We established a Deputy Assistant Secretary of Defense to act as a single focal point for spare parts management initiatives. Additionally, each Military Department has initiated a new spare parts reform plan to seek savings through vendor breakout and greater use of competition in spare parts procurement.

Overhead Reduction

All of this reflects what we have done in the last few years. Let me now discuss briefly two areas that we intend to pursue rather vigorously in the year ahead. We plan to place particular emphasis on reducing contractor overhead costs, which make up one-third of the price charged by prime contractors for weapon systems. In August 1984, my Undersecretary for Research and Engineering initiated a joint service review of these contractor costs. In the coming year, we will build upon the results of that survey by establishing some principles of overhead cost control and by working with industry to develop incentives for reducing overhead costs.

Elimination of Overspecification

Secondly, we will be intensifying our efforts to eliminate overspecification in defense contracts. We have made it a top-level management priority, not only in the Department of Defense but within industry, to streamline the standards and specifications that govern our procurements. Initial response to this effort has indicated first rate cooperation from industry. The Council of Defense, Space, and Industry Associations has given us their full support, as have many individual contractors. We expect to reap great rewards from this effort, not only in savings but in increased productivity.

INCREASES IN CONGRESSIONAL DIRECTIONS FY 1970 - FY 1985

	<u>FY 1970</u>	<u>FY 1976</u>	<u>FY 1978</u>	<u>FY 1982</u>	<u>FY 1984</u>	<u>FY 1985</u>	<u>% increase FY 1970-1985</u>
Reports and studies requested by Congress	36	114	153	221	422	458	1172%
Other actions directed by Congress	18	208	229	210	202	202	1022%
General Provision in the Law	<u>64</u>	<u>96</u>	<u>101</u>	<u>158</u>	<u>217</u>	<u>213</u>	233%
Total directions by Congress	118	418	483	589	841	873	
Line item dollar adjustments (program changes):							
Defense Authorization	180	222	270	339 <u>1/</u>	958 <u>2/</u>	1,315	631%
Defense Appropriation	650	1,032	1,183	1,119	1,735	1,848	184%

1/ O&M not previously authorized.

2/ Ammunition procurement and other procurement not previously authorized.

Congressionally Imposed Requirements

(Chart 15: Increases in Congressional Directions)

While I have this opportunity, I would like to address a matter of growing concern to me and others in the Department. This involves the significant increase in the number of reporting requirements levied on the Department during the course of congressional review of our programs each year. Since FY 1970, the number of reports and studies requested by the Congress has increased almost 1,200 percent, with no apparent end in sight. Many of these are quite complex and time-consuming, not to mention their effect on higher priority projects that may go unattended because of competition for the resources to accomplish many tasks simultaneously.

In addition to these reporting requirements, the number of statutory provisions has increased 233 percent, despite our annual recommendation that many of them be deleted. Many of these provisions impose burdensome restrictions and limitations on the Department, all of which are legally binding and often result in increased costs.

In spite of the tremendous workload imposed by these requirements, Congress continues to reduce our

headquarters staffing as well as cut our request for funds to conduct studies and analyses.

As you begin your deliberations on our FY 1986 budget request, I ask that you carefully scrutinize additional requirements imposed by bureaucratic procedures and legislative detail. We will do our best, of course, to cooperate with you and your staff to provide data that will assist in your review of our programs. We have placed great emphasis over the last few years on improving the overall management of the Department including the efficient utilization of headquarters personnel. We plan to continue this effort. We will need your assistance in this and hope that we can count on you to minimize the burden imposed on the Department by excessive reporting requirements and legislative provisions. In a spirit of cooperation, I believe that we can work together to eliminate these types of inefficiencies from the budget review process.

Another matter of concern is the mandatory transfer of our overseas dependents schools to the Department of Education, now scheduled for May 1986. Congress has postponed this transfer twice, but has not passed a permanent repeal. Both the Department of Defense and the Department of Education endorse a permanent repeal of the transfer requirement.

Conclusion

As Congress reviews and considers the FY 1986 defense budget request, I would like to urge, once again, that it not be lured by the deficit situation into making additional reductions to defense. I fully recognize the political process which requires that all parts of the Federal budget must contribute to controlling government spending. But I would ask Congress to recognize the \$58.5 billion in reduced spending that the FY 1986 defense program has already incorporated. We cannot continue to reduce further and achieve our national security goals. Many of the defense dollars requested here today will provide weapons, equipment, or facilities as much as five years from now. The defense budget anticipates the nation's security needs over the long-term. It is too easy to make reductions today and ignore the long-range implications of such actions. We are struggling back from the consequences of that precise behavior in the 1970's. In developing the budget before you, the President and his advisors engaged in the same debates, confronted the same challenges that now face you. The President did not opt for the easy road. His decisions were based upon the vision not just of today's needs, but of tomorrow's as well. I and the entire Department of Defense are prepared to assist you in understanding the defense requirements contained in

the President's FY 1986 Budget and to answer any of your questions. Thank you.